

OFFICE OF THE INSPECTOR GENERAL



DEFENSE CONTRACT AUDIT AGENCY REPORT ON AUDIT OF COSTS INCURRED FOR FISCAL YEARS ENDED DECEMBER 31, 1997 AND 1998 UNDER CONTRACT NUMBER 600-93-0073, CEEXEC, INC., REPORT NO. 6151-2002-B17900101

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OFFICIALS.**

James G. Huse, Jr. – ACTING INSPECTOR GENERAL

April 2002

A-15-02-22074

Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.



SOCIAL SECURITY

MEMORANDUM

Date: April 19, 2002

To: James M. Fornataro
Associate Commissioner
for Acquisition and Grants

From: Assistant Inspector General
for Audit

Subject: Defense Contract Audit Agency Report on Audit of Costs Incurred for Fiscal Years Ended December 31, 1997 and 1998 under Contract Number 600-93-0073, Cexec, Inc., Report No. 6151-2002-B17900101 (A-15-02-22074)

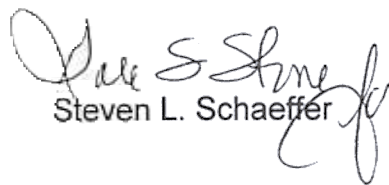
This report presents the Social Security Administration's portion of the Defense Contract Audit Agency (DCAA) Report for Fiscal Years (FY) ended December 31, 1997 and 1998.

**THIS REPORT CONTAINS RESTRICTED INFORMATION FOR OFFICIAL USE.
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As requested by our office in a memorandum dated August 10, 2001, DCAA audited the direct costs claimed Cexec, Inc. under Contract Number 600-93-0073 in its March 27, 1998 and March 29, 1999 certified final indirect rate proposals and related accounting records for FYs 1997 and 1998. The purpose of the audit was to determine the allowability of direct costs and apply the final audit determined indirect rates to the allowable direct costs to compute the total allowable contract costs from January 1, 1997 through December 31, 1998.

The attached report provides the results of DCAA's audit. DCAA concluded that the direct costs claimed are provisionally approved pending final acceptance. Final audit determined indirect rates were used to determine the total allowable costs for FYs 1997 and 1998 of \$1,955,140 and \$1,157,977, respectively. We recommend that you use the incurred cost information provided by DCAA to determine the final contract closeout costs for Contract Number 600-93-0073.

• If you wish to discuss the report, please call me or have your staff contact Frederick C. Nordhoff, Director, Financial Management and Performance Monitoring Audit Division, at (410) 966-6766.


Steven L. Schaeffer

Attachments



DEFENSE CONTRACT AUDIT AGENCY

AUDIT REPORT NO. 6151-2002B17900101

December 17, 2001

PREPARED FOR: Social Security Administration
Office of the Inspector General
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SUBJECT: Report on Audit of Costs Incurred for Fiscal Years Ended December 31, 1997 and 1998
under Contract Number 600-93-0073

REFERENCES: 600-93-0073
Relevant Dates: (See Page 8)

CONTRACTOR: Cexec, Inc.
13921 Park Center Road, Suite 400
Herndon, VA 20171

REPORT RELEASE RESTRICTIONS: See Page 9

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SUBJECT OF AUDIT

As requested by Social Security Administration (SSA), Office of Inspector General (OIG), in a memorandum dated August 10, 2001 reference 600-93-0073, and as discussed subsequently with your office, we audited the Cexec, Inc. direct costs claimed under contract 600-93-0073 in their March 27, 1998 and March 29, 1999 certified final indirect rate proposals and related books and records for fiscal years 1997 and 1998. The purpose of the audit was to determine the allowability of direct costs and apply the final audit determined indirect rates to the allowable direct costs to compute the total allowable contract costs from January 1, 1997 through December 31, 1998.

The submission is the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

EXECUTIVE SUMMARY

The allowable costs are \$1,955,140 for fiscal year 1997 and \$1,157,977 for 1998. See the Results of Audit section of this report for detailed cost information.

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free of material misstatement. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance.

We evaluated the proposals using the applicable requirements contained in the:

- Federal Acquisition Regulations (FAR),
- Applicable Agency Supplements, and
- Contract provisions.

The contractor claims exemption under 48 CFR 9903.201-1(b)(3) from the practices required by the Cost Accounting Standards Board rules and regulations because it is a small business concern.

The contractor's accounting system is considered adequate for accumulating, reporting, and billing of costs on government contracts (see Contractor's Organization and Systems on pages 7 and 8 of this report). CEXEC, Inc. is a small business with limited resources to be applied to compliance procedures and testing. As a result, we have assessed control risk to be high and our audit scope reflects this assessment and provides reasonable basis for our opinion.

RESULTS OF AUDIT

In our opinion, the allowable costs under Contract No. 600-93-0073 are \$1,955,140 for fiscal year 1997 and \$1,157,977 for fiscal year 1998.

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Audit Report No. 6151-2002B17900101

Indirect Costs: We issued audit determined final indirect rates for fiscal years 1997 and 1998 in our audit report number 6151-1997H10100129/1998H10100129 dated March 27, 2000. We applied the final audit determined rates to the direct costs accepted to determine the allowable overhead and G&A expense.

Direct Costs: In our opinion, the claimed direct costs under Contract No. 600-93-0073 are provisionally approved pending final acceptance. Final acceptance of amounts proposed under government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

The schedule below details the allowable costs by cost element. See Exhibit A on the following page for cumulative allowable costs by task for contract number 600-93-0073.

<u>Cost Element</u>	<u>Audit Determined Allowable Costs</u>	
	<u>1997</u>	<u>1998</u>
Direct Labor	\$551,193	\$384,967
Material	62,019	7,530
Other Direct Costs	52,200	68,946
Subcontract	825,864	363,747
Total Direct Costs	<u>\$1,491,276</u>	<u>\$825,190</u>
Overhead	354,417	259,160
Direct Cost Plus OH	<u>\$1,845,693</u>	<u>\$1,084,350</u>
G&A	109,450	73,627
Less: Rounding	(3)	
Total Costs	<u><u>\$1,955,140</u></u>	<u><u>\$1,157,977</u></u>

We provided and discussed the audit with Ms. Gail Parmentier, Vice President, Finance on November 21, 2001. Ms. Parmentier concurred with our audit results.

CEXEC, Inc.

SUMMARY SCHEDULE OF CUMULATIVE ALLOWABLE COSTS/AMOUNTS
Contract Number 600-93-0073
January 1, 1997 Through December 31, 1998

Cumulative Allowable Costs/Amounts									
Cexec Project #	Task No.	Prior Years Allow Cost (Note 1)	FYE 12/31/1997	FYE 12/31/1998	Subtotal	Less Contract Limitations (Note 2)	Total	Ready to Close	Actual LOE/CUM HRS
4722-001	95-01	\$ 530,015	\$ (529)	-	\$ 529,486	-	\$ 529,486	YES	11,932
4722-004	95-04	161,680	(155)	-	161,525	-	161,525	YES	3,556
4722-010	95-10	69,291	(160)	-	69,131	-	69,131	YES	1,383
4723-001	96-01	217,290	305,171	-	522,461	-	522,461	NO	Note 3
4723-002	96-02	4,354	8,086	-	12,440	\$ 685	\$ 11,755	NO	Note 3
4723-003	96-03	52,691	45,077	-	97,768	-	97,768	NO	Note 3
4723-004	96-04	84,818	135,520	-	220,338	-	220,338	NO	Note 3
4723-005	96-05	14,317	34,661	-	48,978	1,026	47,952	NO	Note 3
4723-006	96-06	92,690	106,734	-	199,424	-	199,424	NO	Note 3
4723-007	96-07	33,244	60,284	-	93,528	-	93,528	NO	Note 3
4723-008	96-08	5,275	-	-	5,275	-	5,275	NO	Note 3
4723-009	96-09	6,406	24,910	-	31,316	-	31,316	NO	Note 3
4723-010	96-10	11,561	9,076	-	20,637	1,827	18,810	NO	Note 3
4723-011	96-12	46,030	21,301	-	67,331	-	67,331	NO	Note 3
4723-013	96-13	1,567	-	-	1,567	-	1,567	NO	Note 3
4723-014	96-14	10,930	10,822	-	21,752	-	21,752	NO	Note 3
4723-015	96-15	36,507	73,400	-	109,907	1,499	108,408	NO	Note 3

CEXEC, Inc.

SUMMARY SCHEDULE OF CUMULATIVE ALLOWABLE COSTS/AMOUNTS
Contract Number 600-93-0073
January 1, 1997 Through December 31, 1998

Cumulative Allowable Costs/Amounts									
Cexec Project #	Task No.	Prior Years Allow Cost	FYE 12/31/1997	FYE 12/31/1998	Subtotal	Less Contract Limitations (Note 1)	Total	Ready to Close	Actual LOE/CUM HRS
4723-016	96-16	-	220,450	-	220,450	2,555	217,895	NO	Note 3
4723-017	96-17	-	79,695	-	79,695	-	79,695	NO	Note 3
4723-018	96-18	-	63,551	-	63,551	-	63,551	NO	Note 3
4724-001	97-01	-	197,443	\$ 280,934	478,377	-	478,377	NO	Note 3
4724-002	97-02	-	7,485	10,345	17,830	-	17,830	NO	Note 3
4724-003	97-03	-	52,528	36,126	88,654	-	88,654	NO	Note 3
4724-004	97-04	-	7,745	-	7,745	-	7,745	NO	Note 3
4724-005	97-05	-	18,471	22,187	40,658	-	40,658	NO	Note 3
4724-006	97-06	-	117,510	225,722	343,232	24,834	318,398	NO	Note 3
4724-007	97-07	-	43,765	136,950	180,715	-	180,715	NO	Note 3
4724-008	97-08	-	113,550	105,836	219,386	-	219,386	NO	Note 3
4724-009	97-09	-	1,469	28,010	29,479	1,245	28,234	NO	Note 3
4724-010	97-10	-	144,320	131,707	276,027	-	276,027	NO	Note 3
4724-011	97-11	-	52,960	-	52,960	-	52,960	NO	Note 3
4724-012	97-12	-	-	12,298	12,298	-	12,298	NO	Note 3
4724-013	97-13	-	-	146,954	146,954	-	146,954	NO	Note 3
4724-014	97-14	-	-	20,908	20,908	-	20,908	NO	Note 3
Total		<u>\$ 1,378,666</u>	<u>\$ 1,955,140</u>	<u>\$ 1,157,977</u>	<u>\$ 4,491,783</u>	<u>\$ 33,671</u>	<u>\$ 4,458,112</u>		

Notes:

1. These costs represent cost in excess of the contractor's ceiling amount.
2. The contractor could not provide the LOE hours. The contracts should not be closed out without this information

CONTRACTOR ORGANIZATION AND SYSTEMS

I. Organization

Cexec, Inc. was incorporated in the Commonwealth of Virginia on December 7, 1976. On August 23, 1978, the founders of Cexec, Inc., created a Delaware corporation named XECEX, Inc. On October 11, 1978, Cexec, Inc., merged with XECEX, Inc. Cexec, Inc., was the surviving corporation and has operated under the laws of the State of Delaware since that time. The Corporation conducts its operations in Virginia, Maryland, Washington, D.C., Ohio, Oklahoma, and Florida.

The primary purpose of the Corporation is to provide technical, management and scientific support services in the Federal and State government arenas for transportation, finance, communications, information and acquisition management systems. Sales for 1997 and 1998 were approximately \$24.3 and 26.2 million, respectively.

II. Accounting System

In our opinion, the contractor's accounting system is considered adequate for the accumulation and reporting of costs under governments. There are no outstanding accounting or internal control deficiencies.

The contractor maintains a job cost accounting system wherein contracts are assigned individual project numbers that are used to accumulate associated direct costs. Indirect costs are identified with and accumulated under individual accounts, which in turn are identified to the various indirect cost pools.

Indirect Cost Pool

Allocation Base

SDS Home Overhead	Straight time direct labor of all contracts, including IR&D and B&P labor dollars
SDS Field Overhead	Straight time direct labor of all contracts
NTS Field Overhead	Straight time direct labor of all contracts
G&A	Total incurred costs, excluding G&A and B&P/IR&D and cost of money

Independent Research and Development/Bid and Proposal (IR&D/B&P):

IR&D/B&P elements of cost represent salaries, supplies, materials, and an appropriate allocation of indirect expenses, excluding G&A expense. IR&D/B&P costs are allocated to contracts as part of the G&A rate. Those B&P costs, which are administrative in nature, are charged to the appropriate indirect cost pool. The costs of preparing proposals required by an existing contract are charged directly to that particular contract rather than to the B&P account. Examples of proposal effort charged directly to contracts include: letter contracts, unpriced options, and repricing.

The Following Effort Is Normally Charged Direct:

- Direct time of direct labor employees
- Premium or overtime related to direct efforts
- Other direct costs and subcontract items used in performance of contracts
- Travel expenses incurred by direct employees in performance of contract efforts
- Professional services and consultant fees related to the contract performance
- Temporary help to perform direct effort on contracts

The Following Effort Is Normally Charged Indirect

- Management, supervisory, and clerical salaries
- Indirect time of direct employees
- Premium or overtime related to indirect effort
- Social Security unemployment insurance, workers' compensation, group insurance, pension expenses, and discounts earned
- Travel expenses associated with indirect labor effort
- Other expenses not included above; such as general operating expenses, utilities, pre-employment, rental costs of facilities and general-purpose equipment

DCAA PERSONNEL

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Lisa Chrissinger, Supervisory Auditor

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General information on audit matters is available at <http://www.dcaa.mil/>.

RELEVANT DATES

Request for Audit: August 10, 2001: Received August 28, 2001

AUDIT REPORT AUTHORIZED BY:

/s/

Hyosun K. Ro
Branch Manager
DCAA Fairfax Branch Office

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

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2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act requests for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.
3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.

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Total	<u>41</u>

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress, and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from the Agency, as well as conducting employee investigations within OIG. Finally, OEO administers OIG's public affairs, media, and interagency activities and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.